

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-09 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 CAB-02 COME-00 DOTE-00 EB-07 FAA-00 AID-05

FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01

OMB-01 MC-02 /096 W

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R 121620Z FEB 75

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 1144

INFO AMEMBASSY BEIRUT

AMEMBASSY LONDON

AMEMBASSY ATHENS

C O N F I D E N T I A L NICOSIA 0601

BEIRUT FOR DWOR

E.O. 11652: GDS

TAGS: ETRD EAIR CY

SUBJ: SALE OF MCDONNELL-DOUGLAS AIRCRAFT TO CYPRUS AIRWAYS

- EXIMBANK FINANCING

REF: NICOSIA 0569

1. SUMMARY: MCDONNELL-DOUGLAS (MD-D) AIRCRAFT CO. SALES TEAM PRESENTLY IN NICOSIA MAKING PRESENTATION TO CYPRUS AIRWAYS FOR TWO PART PACKAGE USING MD-D AIRCRAFT. EMBASSY BELIEVES SALE SUCCESS SUPPORTS U.S. GOVERNMENT POLITICAL AND COMMERCIAL OBJECTIVES AND RECOMMENDS DEPARTMENT TAKE SUITABLE STEPS IN CON-- JUNCTION WITH DEPARTMENT OF COMMERCE TO ENSURE FAVORABLE EXIMBANK DECISION ON FINANCING. WITHIN FEW WEEKS MD-D WILL BE APPROACHING BANK FOR FORMAL PRELIMINARY COMMITMENT.
END SUMMARY.

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2. CYPRUS AIRWAYS (CY) BEFORE EVENTS OF JULY 1974 OPERATED FOUR

BRITISH-BUILT TRIDENT JET AIRCRAFT AND ONE BAC-111 JET AIRCRAFT. ONE TRIDENT COMPLETELY DESTROYED AT NICOSIA AIRPORT; ONE TRIDENT NOT DESTROYED BUT HEAVILY BULLET-MARKED AND PROBABLY TOTAL WRITE-OFF; TWO TRIDENTS OF QUESTIONABLE AIR WORTHINESS. BAC-111 AIR-WOGLHINESS NOT KNOWN, NICOSIA INTERNATIONAL AIRPORT REMAINS CLOSED TO ALL TRAFFIC AND CY DOES NOT HAVE ACCESS TO AIRCRAFT. OPERATION OF CY HAS TRADITIONALLY BEEN STRONGLY TIED TO BRITISH AIRWAYS (BA) AND UK FINANCIAL INSTITUTIONS. JUST BEFORE JULY EVENTS CY HAD MADE FIRM DECISION ON SELECTION OF WIDE-BODIED AIRCRAFT.

DECISION WAS BASED ON EQUIPMENT COMPATIBILITY WITH BA. L-1011 CHOICE WITH BRITISH-MADE ROLLS-ROYCE ENGINES WOULD HAVE ENSURED CONTINUATION OF STRONG CY TIES TO BA. EVENTS OF JULY 1974 HAVE CREATED NEW BALL GAME.

3. GOC RECENTLY REOPENED THE LARNACA AIRSTRIP WITH RUNWAY LENGTH OF 4200 FEET, SOON TO BE LENGTHENED TO 5100 FEET (SEE REFTEL). CY HAS OPEN-ENDED ARRANGEMENT WITH BRITISH MIDLAND AIRWAYS FOR WET-LEASE OPERATION OF TWO VISCOUNT 810 TURBOPROP AIRCRAFT WITH CY MARKINGS. AIRCRAFT OPERATE BETWEEN LARNACA, ATHENS, CRETE, TEL AVIV. OLYMPIC AIRWAYS USING LARNACA OPERATING YS-11 TURBOPROP ON REGIONAL FLIGHTS. CY, HOWEVER, WANTS TO RE-EQUIP WITH JETS AND RUN OWN OPERATIONS DIRECTLY, SEVERING ITSELF FROM SECOND-CLASS STATUS AS PROTECTED CARRIER UNDER (FORMERLY) BRITISH AIRWAYS AND (PRESENTLY) BRITISH MIDLANDS. WITH CY'S BRITISH-MADE AIRCRAFT INOPERABLE AND WITH OPENING OF NEW AIRSTRIP, SITUATION PRESENTS ITSELF WHERE U.S. MANUFACTURER IN GOOD POSITION TO MAKE OFFER TO RE-EQUIP CY WITH US-MADE AIRCRAFT. COMPETITION FROM OTHER COUNTRIES IS STIFF. FRENCH OFFERING A300B TWIN-JET; DUTCH PUSHING F-27/28; BRITISH ANXIOUS TO KEEP CY UNDER ITS WING OR AT MINIMUM RE-EQUIP WITH US-MADE AIRCRAFT. SOVIETS HAVE PRESENTED INTERESTING PROPOSAL USING YAK-40 AND PRICE REBATE ON AVIATION FUEL. CYPRUS AIRWAYS HAS MADE IT CLEAR IT WANTS TO OWN AND OPERATE ITS AIRCRAFT IN ORDER TO GARNER LARGER SHARE OF REVENUES. MCDONNELL-DOUGLAS OFFER APPEARS TO BE RECEIVING FAVORABLE REACTION FROM CYPRUS AIRWAYS GENERAL MANAGER.

4. PART I OF MD-D OFFER ENTAILS IMMEDIATE WET-LEASE OF 2 OR 3 DC-9 AIRCRAFTS PRESENTLY IN U.S. AND HAVING JUST BEEN D-CHECKED
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(ZERO TIME). MD-D WOULD PROVIDE FLIGHT CREWS AND MAINTENANCE SUPERVISOR, AND WOULD TRAIN MECHANICS AND PILOTS. MAINTENANCE AND SPARES WOULD BE CONTRACTED OUT TO OTHER EUROPEAN DC-9 OPERATORS (KLM OR SWISSAIR). ACCOUNTING, TICKETING, ADVERTISING RESPONSIBILITY OF LOCAL AIRLINE. UTILIZATION OF DC-9 ON LEASE WOULD CEASE. INITIAL PHASE WOULD LAST FROM 18 MONTHS TO 2 YEARS.

5. PART II OF MD-D OFFER IS OUTRIGHT SALE OF THREE NEW DC-9-30 MODELS WITH MAXIMUM RANGE TO PERMIT LARNACA-LONDON NON-STOP. AIRCRAFT DELIVERY FOR LATE 1976, AT COST PER AIRCRAFT OF APPROXIMATELY \$7 MILLION. PACKAGE DEAL OF \$21-22 MILLION WOULD INCLUDE MD-D FREE FINANCING FOR ONE YEAR OF \$1.2 MILLION WORTH OF SPARE PARTS. MD-D SALES AND TECHNICAL BACKUP WOULD BE BASED IN NICOSIA.

6. EMBASSY VIEWS MD-D PACKAGE PROPOSAL AS MOST DESIRABLE. LEASE/SALE PROPOSED BY MD-D WOULD SECURE CYPRUS AIRWAYS TO U.S. MANUFACTURERS AND MAKE ENTRY BY OTHER OFFER COUNTRIES DIFFICULT. IN WIDE-BODIES FIELD MD-D WOULD THEN BE IN BEST POSITION TO PUSH FOR LATER SALE OF US-MADE DC-10. ENTRY OF MD-D VIA PROPOSED ARRANGEMENT WOULD SIGNIFICANTLY UNDERCUT EXPECTED STRONG FRENCH DRIVE TO SELL A300B. AS FOR SOVIET OFFER, EMBASSY VIEWS THIS POSSIBILITY AS UNDESIRABLE FOR COMMERCIAL AND STRATEGIC REASONS. SUBSTANCE OUR VIEWS THIS MATTEGNSUBJECT OF OTHER MESSAGES. CYPRUS AIRWAYS MANAGER E. SAVVA, GREEK CYPRIOT, FORMER SENIOR RAF PILOT, MARRIED TO U.S. NATONAL, HAS SEVERAL TIMES IN PAST EXPRESSED DESIRE TO RE-EQUIP CY WITH DC-9 AIRCRAFT BUT FOUND IT IMPOSSIBLE TO CONVINCE HIS BOARD OF DIRECTORS TO SEVER TIE WITH BA. CHOICE OF L-1011 LAST YEAR SHOWED STRENGTH OF BA GRIP ON CY. SINCE CY'S OWN TRIDENTS AND BAC-111 OUT OF REACH AND BA NOT OPERATING TO CYPRUS AT PRESENT, SAVVA BELIEVES THAT BOARD MAY NOW CONSIDER HIS PROPOSAL FOR DC-9S FAVORABLY. IN ADDITION, BRITISH RELEASE OF TURK CYPRIOT REFUGEES FROM EPISKOPI SOVEREIGN BASE AREA FOR MOVEMENT TO TURKEY AND SUBSEQUENT RESETTLEMENT IN NORTH PART OF CYPRUS HAS ANGERED GREEK CYPRIOTS AGAINST BRITISH. IN SUM, SITUATION FOR U.S. AIRCRAFT SALE IS SOMEWHAT ENCOURAGING, BUT EMBASSY BELIEVES MD-D NEEDS ALL HELP IT CAN GET.

7. SALE DEPENDENT IN PART ON ARRANGEMENT OF FINANCING. CY WILL BE ABLE, WE BELIEVE, TO MAKE FIRM CONTRACT DEPOSIT OF AROUND CONFIDENTIAL

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10-15 PERCENT OF CONTRACT PRICE (ASSUMED AT AROUND \$21-22 MILLION). WE WOULD LIKE TO SEE EXIMBANK AGGREGATE PARTICIPATION OF BALANCE WITH BOTH DIRECT LOAN AND FINANCIAL GUARANTEES OF LOANS MADE TO BORROWER BY FINANCIAL INSTITUTIONS ACCEPTABLE TO BANK. EMBASSY BELIEVES GOC IN A POSITION TO GUARANTEE EXIMBANK'S DIRECT LOAN, EXPORTER FINANCING (IF ANY), LOANS GUARANTEED BY EXIMBANK, PLUS INTEREST.

8. WE WILL SEND MORE INFO ON OVERALL TIMING IF CHANGES OCCUR HERE. WOULD APPRECIATE CLOSE COORDINATION AND REGULAR UPDATE THIS MATTER. ADVISE. CRAWFORD

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